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RESEARCH AID

EVOLUTION
OF THE ADMINISTRATIVE STRUCTURE
OF SOVIET INDUSTRY
1917-57



CIA/RR RA-27

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FOREWORD

This research aid is the first in a series examining the economic background, content, and implications of the reorganization in 1957 of the administration and planning of industry and construction in the USSR. Subsequent publications will examine the economic rationale of the scheme, its initial impact upon the Soviet industrial economy, and its long-run economic implications for Soviet economic growth.

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OF SOVIET INDUSTRY
1917-57

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EVOLUTION OF THE ADMINISTRATIVE STRUCTURE OF SOVIET INDUSTRY
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Summary

The organizational forms of Soviet industrial management have undergone almost continuous change. With the exception of the New Economic Policy of 1921, however, which involved a temporary abandonment of certain economic policies and some radical deviations from the Soviet trend of industrial organization, Soviet organizational change has been evolutionary.

Starting out in 1921 with widely fragmented management and large segments of industry privately controlled, a pattern has emerged of increasingly broad control by the state over industrial and construction activities. Simultaneously with this tendency toward strengthening its central control, the Soviet government pursued a policy of dividing its large administrative units along technically specialized lines, thus increasing the number of specialized industrial ministries at the top level of the administrative hierarchy. As a result of these two tendencies -- concentration of control and proliferation of agencies -- there emerged by 1957 a specialized industrial organization with a tight pyramidal structure and an intricate chain of command.

The elaborate administrative network radiated from "the center" (Moscow) through the constituent republics and/or through groups of industries to the individual producing units. At the top of this administrative hierarchy was the Council of Ministers of the USSR, which, in addition to its other functions, supervised the vast industrial machine consisting of 38 specialized industrial and construction ministries and a host of committees performing special tasks assigned to them by the Council of Ministers.

The top policymaking body was the Presidium of the Central Committee of the Communist Party (known as the Politburo until 1952). The Council of Ministers carried out the directives of the Presidium.

Industrial activities, depending upon their significance and the pattern of their production activity, were divided into three categories: All-Union, union-republic, and republic. These categories generally corresponded to the three main types of industry: heavy; light; and local, small-scale industry.

Technically specialized industrial administration was mainly concerned with the transmission downward of all information, directives,

and allocations essential for the fulfillment of the state economic plan by the producing units. At each stage of this transmission process the tasks and the available resources were broken down among units of the hierarchical order, through ministries, main administrations, and trusts to plants.

The State Planning Committee (Gosplan) functioned as the "general staff" of the Soviet economy. This agency pervaded the entire governmental structure of the USSR by means of a complex and extended chain of relationships running through subordinate planning committees in every republic, kray, and oblast and through planning departments in every economic ministry, main administration, and plant. The main function of Gosplan was the preparation of comprehensive plans by which to direct the economic activities of the nation. These plans prescribed production targets for every sector of the national economy and determined how resources were to be allocated to serve particular ends in a particular way.

Viewed against the background of its accomplishments in the field of industrial production, the Soviet system of centralized planning and specialized ministerial control worked with considerable effectiveness. It placed in the hands of the Soviet state a powerful instrument to promote industrialization and to establish the economic basis for support of Soviet objectives both at home and abroad. This system, however, was not frictionless; as the Soviet economy became increasingly complex, problems developed in production and distribution, and there were strains in its complicated machinery. Some strains could be traced to the dependence of planning on this highly complicated and tightly centralized machinery of administration, whereas others were the consequence of malfunctioning of the planning process.

Stalin's successors tried a number of remedies to cure these ills in the Soviet economy. They reduced the economic bureaucracy by nearly a million men. Some industrial ministries were changed in status from All-Union to union republic to bring management closer to production and thus increase efficiency. Another reform measure was to reorganize Gosplan and to create a special short-term planning agency -- Gosekonomkomissiya -- charged also with the responsibility for monitoring industrial production.

But by the end of 1956 the Soviet leaders apparently recognized that the Sixth Five Year Plan (1956-60) had not been based on a realistic assessment of available resources and the investment requirements for their exploitation. They began to encounter difficulties with the industrial production program for 1956. And the Supreme Soviet, meeting early in February 1957, approved the economic plan for 1957 which called for a very modest rate of growth of industrial production. The Supreme Soviet adjourned on 12 February 1957. Two days later the Plenum of the Central Committee adopted a resolution to revamp the entire planning and administrative structure of Soviet industry and construction.

I. Industrial Organization Under War Communism, 1917-21.

When, as the result of a successful coup d'état, the Russian Bolsheviks assumed political control over Russia in November 1917, their principal aim was the immediate and compulsory establishment of a socialist economic order. Their concepts of the new forms which economic activities ought to assume were rather vague and general, largely derived from the writings of Karl Marx.

According to Marx, the principal faults of capitalist economy lay in private ownership of the means of production, in the alleged economic wastefulness resulting from the existence of thousands of institutionally isolated although technically related production units, and in the mechanism of money exchange, which he thought concealed the essence and purpose of economic activity. In contrast, Marx advocated social ownership of the means of production and the setting up of a logically planned and integrated system of production and distribution in place of the "anarchic" mechanism of money and markets. The economic policy of the Soviet government during the period of War Communism was an effort to give concrete meaning to this general program.

In its first legislative acts the Soviet government took over the material means of production and proclaimed itself the sole organizer of economic activity. By the end of the first year of Soviet rule, all large-scale raw material and manufacturing industries were in the hands of the state or its agents, 1/* and by the end of 1920 even small-scale establishments had been taken over by the Soviet government. To all intents and purposes, therefore, the whole of industry in Soviet Russia was subjected either directly or through local agencies to the control of Moscow.

For the management of socialized industries, an elaborate governmental network of administration was established radiating from "the center" (Moscow) to the provinces, thence to groups of industries, and finally to the individual producing units. The functions formerly exercised by the entrepreneur were now in the hands of various state agencies, with the Supreme Council of National Economy (Verkhovnyy Sovet Narodnogo Khozyaystva -- VSNKh) at the top, and about 60 complete systems of production control combined under it. A commission of the Supreme Council of National Economy, the Central Production Commission, had the specific duty of framing schedules for the various branches of production in order to coordinate their activities into a unified economic plan (see Figure 1**).

* For serially numbered source references, see the Appendix.

** Following p. 4.

In addition to the Supreme Council of National Economy, a local Council of National Economy was established for each Guberniya* (Sovet Narodnogo Khozyaystva -- Gubsovnarkhoz) and for each Uyezd* to act as local representatives of the Supreme Council of National Economy. These bodies, however, soon became centers of resistance asserting local interests against those of the center, 2/ and it required a prolonged struggle to subordinate the periphery to Moscow. By the end of 1920 a movement to develop an organizational structure for industry had begun that would reconcile local and state interests.** The Ninth Congress of the Russian Communist Party (Bolshevik), meeting at the end of 1920, adopted a resolution on industrial organization as follows: "The present task is to retain and develop the vertical integration [of industry] along the lines of main committees [glavki] and to combine it with a horizontal coordination of enterprises along the lines of economic regions, where enterprises of various branches of industry ... have to feed on the same sources of local raw materials, transportation and labor force." 3/ Subsequent developments, however, took a different turn, as the Tenth Party Congress repudiated in March 1921 the economic policies of War Communism and inaugurated a new economic policy.

II. Industrial Organization Under the New Economic Policy, 1921-27.

The New Economic Policy (Novaya Ekonomicheskaya Politika -- NEP) was essentially an admission of inability to implement the original plan for almost immediate socialization of the whole national economy. Renunciation of the original plan implied the limitation of state enterprise to a narrower sphere and the enlisting of the services of private initiative and private capital in those areas of activity which the state abandoned. The first and most important among the economic activities freed from compulsory socialization was peasant agriculture. Then small-scale handicraft, or kustar', industries, predominantly involving the peasant population, were freed from state control by a decree which proclaimed the right of every citizen to engage freely in kustar' industry and to dispose freely of the products and commodities of his manufacture. 4/

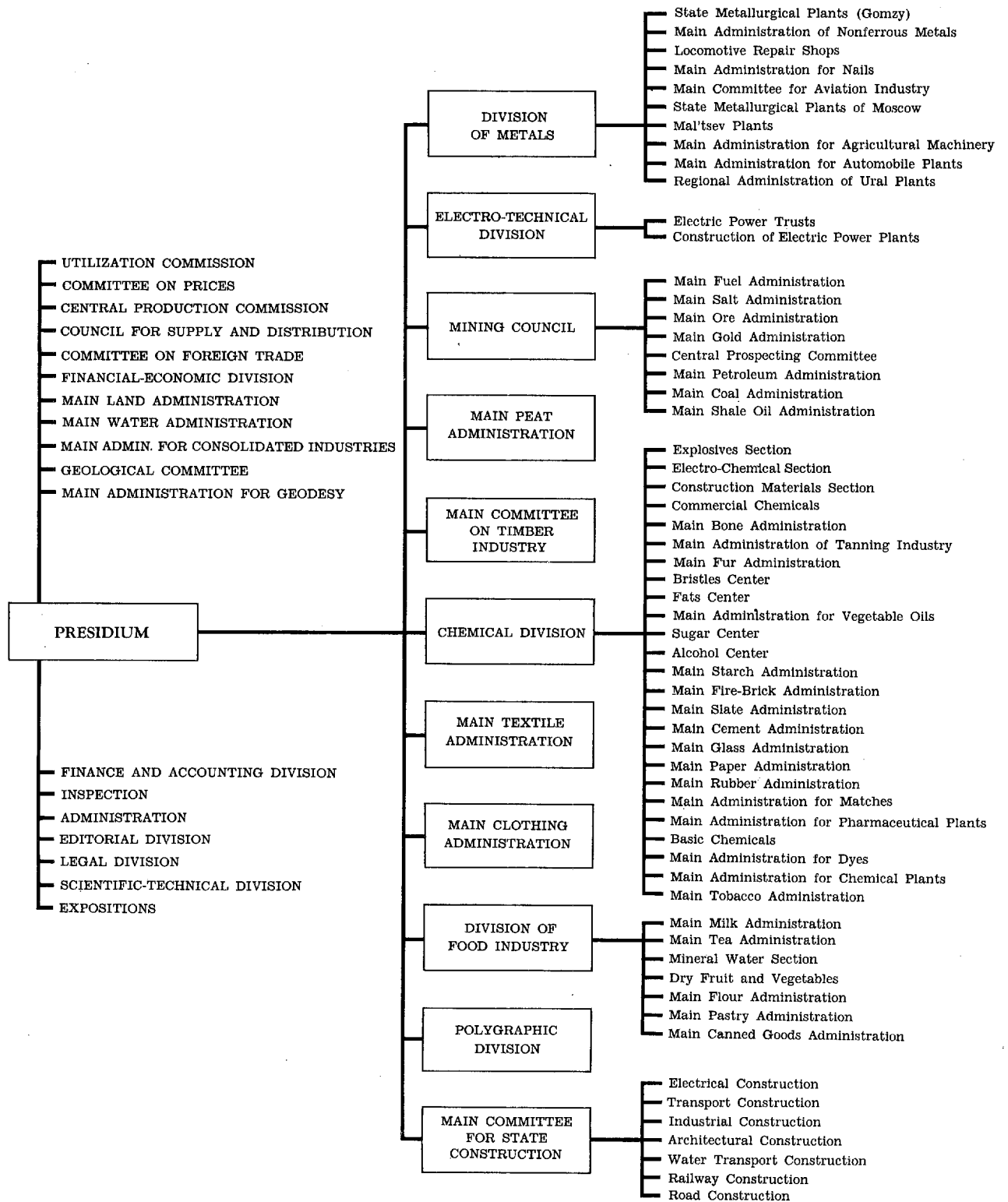
Medium-size industry was likewise set apart from the socialized sector of the economy and turned over to private individuals and cooperatives, on lease, with the right to accept orders from private persons and to produce goods for the competitive market.

* Guberniya and uyezd are territorial administrative units of the Russian Empire corresponding to the later Soviet oblast and rayon.

** Although nothing came of the movement, it is of interest in that it included proposals somewhat similar to some embodied in Nikita Khrushchev's plan for the territorial administration of industry adopted by the Supreme Soviet of the USSR on 10 May 1957.

USSR STRUCTURE OF THE SUPREME COUNCIL OF NATIONAL ECONOMY UNDER WAR COMMUNISM, 1920

Figure 1



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Altogether a considerable part of Soviet economic activity was removed from direct state control. At the same time, even those large-scale industrial enterprises to which the state still clung underwent extensive reorganization. By decree of August 1921, Russian industry was split up into a number of trusts which were to be run on economic accountability, or cost accounting (khozraschet), principles. These trusts combined groups of similar enterprises located in the same region. They were authorized to administer the activity of their plants and to make their own plans of production. 5/ At first the output had to be turned over to the "common fund of the State," but within a few months this requirement was so modified as to leave the trust unhampered to dispose of its output in the market (Decree of February 1922). Thus, although large-scale nationalized industry continued technically to be in the hands of the state and under direct authority of the Supreme Council of National Economy, its administration was delegated to territorial government trusts which enjoyed a large measure of autonomy. The opposition to control from the center in the early years of the New Economic Policy can best be illustrated by the fact that in 1922 proposals were current to replace the Supreme Council of National Economy by a loose organization to be known as the Soviet of Congresses (Sovet S"yezdov), and the trusts were to be reorganized into joint-stock companies. 6/ Actually, however, the trusts came gradually under more effective control of the Supreme Council of National Economy through the medium of syndicates and later through combines.

In 1923 the relationships between the trusts and the Supreme Council of National Economy were formalized in a Sovnarkom* decree of 10 April, according to which the "Supreme Council of National Economy does not interfere in the current administrative and operational work of the trusts." The functions of the Supreme Council of National Economy were to be primarily of a regulative and controlling nature. It established the production programs of the trusts and had the authority to appoint and dismiss the directing personnel of the trusts. 7/

Following the formation of the Union of Soviet Socialist Republics (USSR) in 1923, the Supreme Council of National Economy became an All-Union Commissariat.** All industrial enterprises were divided into three groups -- All-Union, union-republic, and local enterprises -- to be subordinated, respectively, to the Supreme Council of National Economy, to the Supreme Councils of National Economy of union republics, and to local Councils of National Economy.

The structure of the Supreme Council of National Economy by this time had become greatly simplified (see Figure 2***). In 1925 it

* The Council of Peoples Commissars (Sovet Narodnykh Komissarov), the antecedent of the present Council of Ministers of the USSR.

** The equivalent of a present ministry of the USSR.

*** Following p. 6.

consisted of two major divisions. One division, called the Main Economic Administration, was concerned with problems relating to industry as a whole, such as industrial legislation, questions of industrial policy, and general production plans for industry. The other division, called the Central Administration of State Industry, was primarily concerned with capital investment in state enterprises of All-Union significance, appointment of managerial personnel, and general supervision of All-Union trusts. Republic Councils of National Economy as well as local councils were patterned along the organizational lines of the Supreme Council of National Economy. 8/

III. Industrial Organization in the Transition Period, 1928-31.

By 1927 the Soviet economy had largely recuperated from the wounds inflicted by World War I, the Russian Civil War, and the experimentation of War Communism. Especially was this true of industry, which by that time had recovered approximately to the output level of 1913. To the Soviet leaders, conditions seemed ripe for a new Socialist offensive and a new effort to build the Socialist economic order, which meant the extension of centralized planning and control to more areas of economic activity. Under the existing conditions, planned regulation extended only to industry of All-Union significance. Union-republic industry and local industry escaped planned control. To remedy this situation, a general reorganization of the Supreme Council of National Economy was undertaken in 1927. The Central Administration of State Industry and its directorates were abolished. Their place was taken by Main Administrations and Committees in charge of the various branches of industry, with the task of planning and regulating the entire output of a particular branch of industry preparatory to launching the First Five Year Plan (1928-32). (See Figure 3*.) Through the corresponding departments of the Supreme Councils of National Economy of union republics, oblasts, and guberniyas, the Main Administrations of the Supreme Council of National Economy extended their influence and control over union-republic and local industries, thus covering by planned central regulation all enterprises of a given industry.

Also abolished was the Main Economic Administration. This was replaced by the Economic Planning Administration, whose function was to coordinate the work of the Main Administrations and Committees and prepare annual plans of industrial production and investment as well as "perspective" plans for longer periods.

The Supreme Council of National Economy also had the responsibility for improving technology, establishing prices, and confirming reports and balances of plants and trusts. Finally, the Supreme Council of National Economy was the inspecting agency of industry, checking the record of fulfillment by various industrial organizations of the most important directives of the Soviet government and the Presidium of the Supreme Council of National Economy. 9/

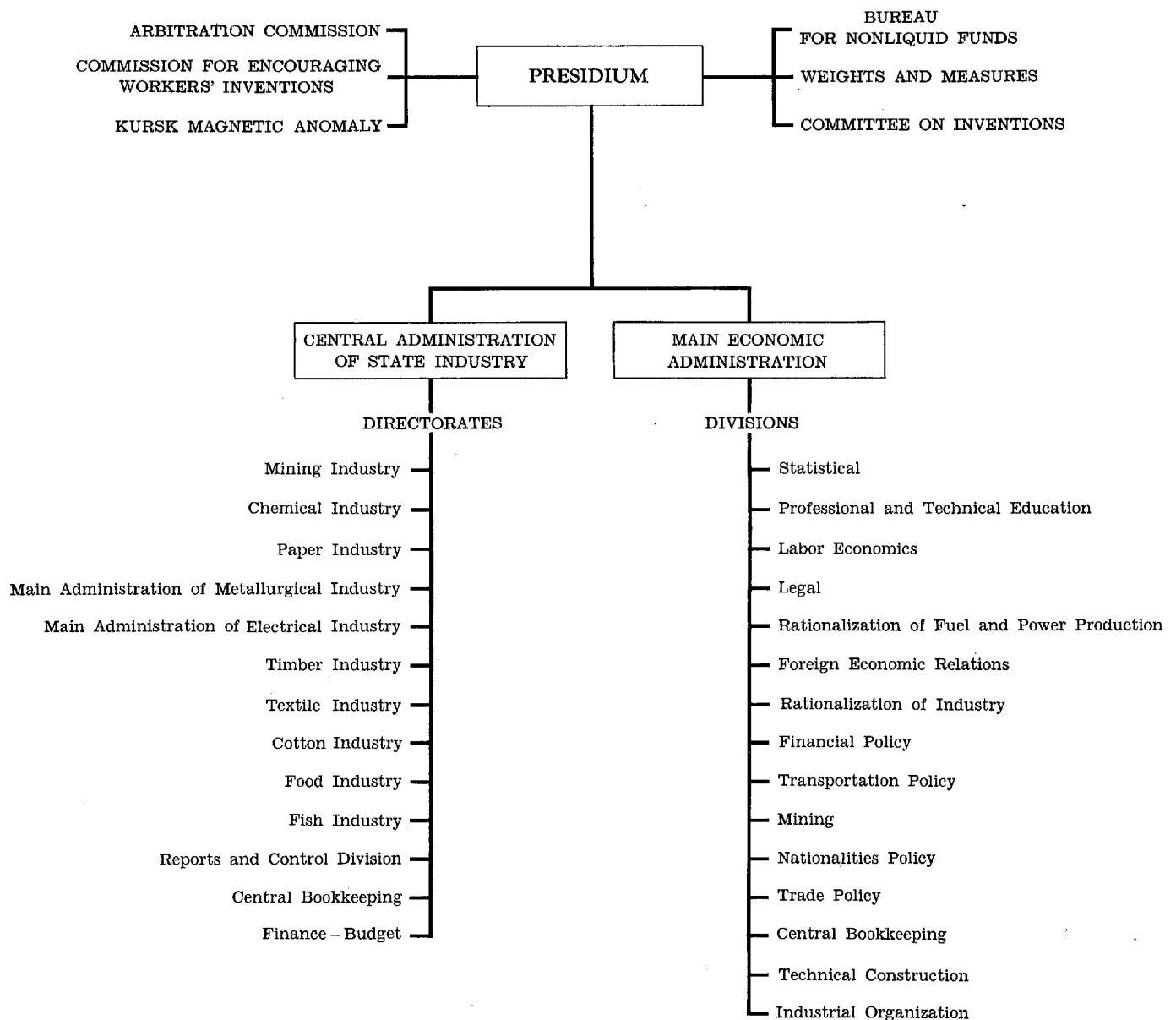
At the same time that the reorganization of the top echelon of Soviet industrial management was going on, changes were also taking

* Following p. 6.

USSR

Figure 2

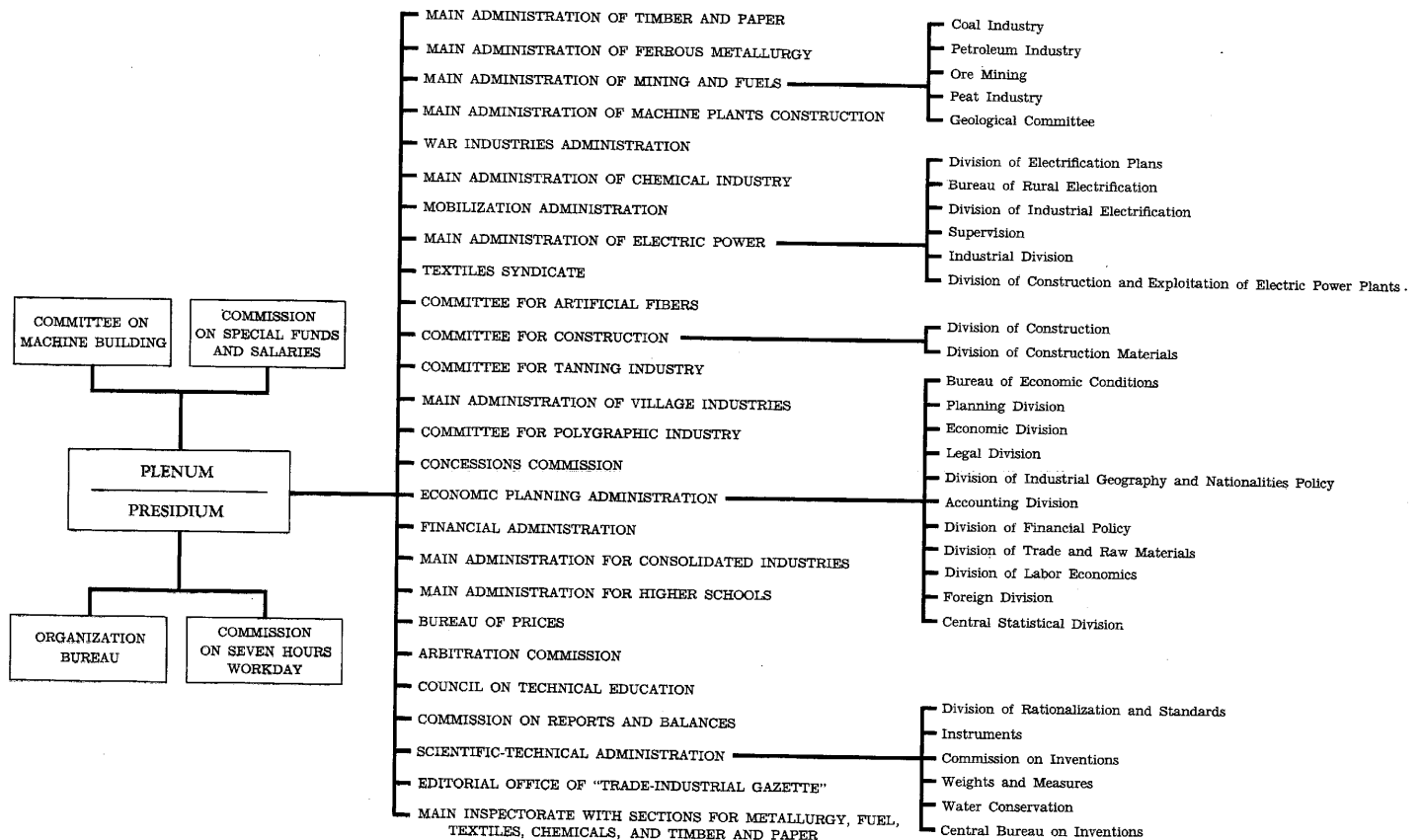
STRUCTURE OF THE SUPREME COUNCIL OF NATIONAL ECONOMY UNDER THE NEW ECONOMIC POLICY, 1925



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USSR STRUCTURE OF THE SUPREME COUNCIL OF NATIONAL ECONOMY ON THE EVE OF THE FIRST FIVE YEAR PLAN, 1928

Figure 3



place on the lower levels of the industrial hierarchy. Trusts were being consolidated into syndicates and combines. When an industry reached the goal of complete syndication, it became evident that there was unnecessary duplication of functions by the corresponding production main administrations of the Supreme Council of National Economy. This led to a new reorganization of the Supreme Council of National Economy in 1929 in which the production main administrations were replaced by syndicates and combines. 10/ This state of affairs, however, did not last long. The syndicates and combines proved too unwieldy, and Stalin, who by that time had gained ascendancy over his political rivals, in a speech delivered on 13 June 1931 before a conference of economic administrators, advocated policies which in part anticipated Khrushchev's "theses" of 1957. "Our present unwieldy combines," Stalin said, "must be split into a number of smaller ones, and the combine headquarters must be brought into closer contact with the plants. ... The position at present is that there are from ten to fifteen persons on the board of a combine drawing up documents and carrying on discussions. ... We must put a stop to paper management and switch to businesslike Bolshevik work. Let one chairman and several deputy chairmen remain at the head. ... The other members of the board should be sent to the factories and plants. That will be far more useful both for the work and for themselves." 11/

In the course of 1931, some syndicates and combines were reduced to smaller proportions, and others were reorganized into trusts directly in charge of the production activities of industrial undertakings. At the same time the production main administrations of the Supreme Council of National Economy, abolished in 1929, were reestablished and were given the function of planning and coordinating the work of individual industries. 12/ This arrangement lasted only a few months. The administrative reorganization of January 1932 inaugurated a new pattern of industrial management.

IV. Industrial Organization in the Period of Comprehensive Planning, 1932-57.

During 1932-57 the pattern of Soviet industrial management moved in the direction of splitting large administrative units into technically specialized units and of increasing the number of economic agencies at the top level of the administrative hierarchy. In 1932 the Supreme Council of National Economy, which administered the entire Soviet industry, was abolished. Its place was taken by 3 Commissariats -- 1 for heavy industry, 1 for light industry, and 1 for the timber industry.

Commenting on this reorganization, an editorial in Izvestiya on 5 January 1932 observed: "In this significant organizational reform is clearly seen the policy of dividing up and specializing the highest organs of economic administration. ... The reasons for this reorganization are the following: the need for bringing the directing bodies in closer contact with the actual work that is being done in the factories; ... the need for enabling the chief of each branch of activity

to master technology on the basis of specialization; the need for insuring a careful economic control of every branch of the national economy ..., a matter to which ever greater importance attaches the more the economic life of a socialized country expands and becomes more complicated and differentiated. This reorganization will endow economic life with greater elasticity and lead to a more rational and more practical outlook."

A. The Technically Specialized Administrative Pattern.

Following the reorganization of 1932 the process of differentiation proceeded at a rapid pace.* The only exceptions to this process were the years of World War II and the few months following the death of Stalin in March 1953. By 1957 an elaborate, centralized, and highly specialized administrative network was in existence. This network radiated from Moscow to the constituent republics, to groups of industries, and to individual producing units. At the top of this administrative hierarchy was the All-Union Council of Ministers, which among its other duties supervised the vast industrial machine consisting of 38 industrial and construction ministries and a host of committees and main administrations performing special tasks assigned to them.

The top policymaking body was the Presidium of the Central Committee of the Communist Party (known as the Politburo until 1952). The Council of Ministers carried out the directives of the Presidium.

In addition to a territorial subordination, government economic administration involved a series of technically specialized, ministerial links reaching down to guide the producing units of the economy. This ministerial structure, often cutting across territorial boundaries to direct a general industrial activity, reflected in large measure the importance attached to the various branches of the economy as well as their patterns of production. Industrial ministries were divided into three categories: All-Union industries, which involved nationwide operations of importance to the state as a whole; union-republic industries, with operations which were susceptible of being administered territorially and were looked upon as of particular significance to the constituent republics; and republic industries, which consisted mostly of small-scale enterprises whose output was intended primarily for local consumption. 13/

The hierarchical apparatus of administration was mainly concerned with the transmission downward of information, directives, and allocations essential to the fulfillment of the economic plans by the producing units. At each stage of transmission the tasks and available resources were subdivided among units according to the hierarchical order descending through ministries, main administrations, and trusts to plants.

* For the evolution of the central administrative structure of the USSR, see the chart inside back cover.

B. The Ministry.

The Ministry (ministerstvo) directed and coordinated the operations of either one or several branches of industry, discharging such functions as preparations with Gosplan of over-all plans for the industry or industries under its supervision; approval of plans of subordinate units; checking plan fulfillment throughout its jurisdiction; handling problems of supply, technology, disposition of output, and labor and wages; determination of coefficients of input and output; training of personnel and appointment of plant directors; and supervision of schools and scientific research institutes.

Each minister was aided by a number of deputy ministers in charge of definite functions within the ministry. A group of high officials in the ministry functioned as an advisory body, or collegium, supplemented in some ministries by advisory councils. (The structure of a typical All-Union industrial ministry is shown in Figure 4.*)

C. The Main Administration.

Enterprises under the jurisdiction of a ministry were subordinated to one or another main administration (glavnoye upravleniye or glavk). These main administrations operated either along territorial lines (Main Administration of Electric Power Plants of the Center, of the East, and the like) or along commodity lines (Main Administration of the Cement Industry, of the Ceramics Industry, and the like). The glavk mirrored in a general way the production patterns of the industry.

Most industries had a three-stage administrative setup descending from ministry to main administration and finally to plant. In some cases, large industrial complexes or several integrated plants were directly subordinate to the ministry, as in the case of the Magnitogorsk and Kuznetsk metallurgical combines, which were directly in contact with the Ministry of Ferrous Metallurgy. Other ministries had a four-stage chain of command. This type of command was particularly characteristic of extractive industries.

D. The Enterprise.

The basic producing unit of an industry was the enterprise (predpriyatiye), a legal entity which was allowed fixed and working capital and which conducted its business on the principle of economic accountability, or cost accounting (khozraschet), in accordance with the provisions of its economic plan. The degree of its compliance with the plan was the yardstick by which the efficiency of an enterprise was measured. This principle was one of the pillars of planned economy in the USSR. 14/

* Following p. 10.

V. The Economic General Staff: Gosplan.

One outstanding characteristic of the Soviet economic system has come to be the central direction of economic activity according to a comprehensive plan. Just as a private corporation makes up an operational budget from a certain period of time, so the Soviet state lays out a schedule of the economic activity of the nation on both a long-term and a short-term basis. The plan prescribes production targets for every sector of the national economy and specifies how resources are to be allocated to serve particular ends in a particular way at a particular time.

Until about the middle of 1955 the agency responsible for comprehensive planning of Soviet economic activities was the State Planning Committee (Gosudarstvennaya Planovaya Komissiya -- Gosplan).^{*} Every important proposal as to economic policy or practical administration of state enterprises was examined by Gosplan. Suggestions for the development of the various sectors of the national economy were under continuous study, and the activities of state enterprises were coordinated. Gosplan was the economic general staff of the USSR. It was directly attached to the Council of Ministers, and its chairman was a member of that body.

A. Organization of Gosplan.

Organizationally, Gosplan was a miniature representation of the whole range of Soviet economic functions. It was highly centralized in its structure, with its many departments divided into three groups: a group for aggregative economy-wide planning, a group for the planning of technically specialized activities, and staff organizations. (For the structure of Gosplan in 1955, see Figure 5.**)

B. Aggregative Economy-Wide Planning Group (Coordinating Departments).

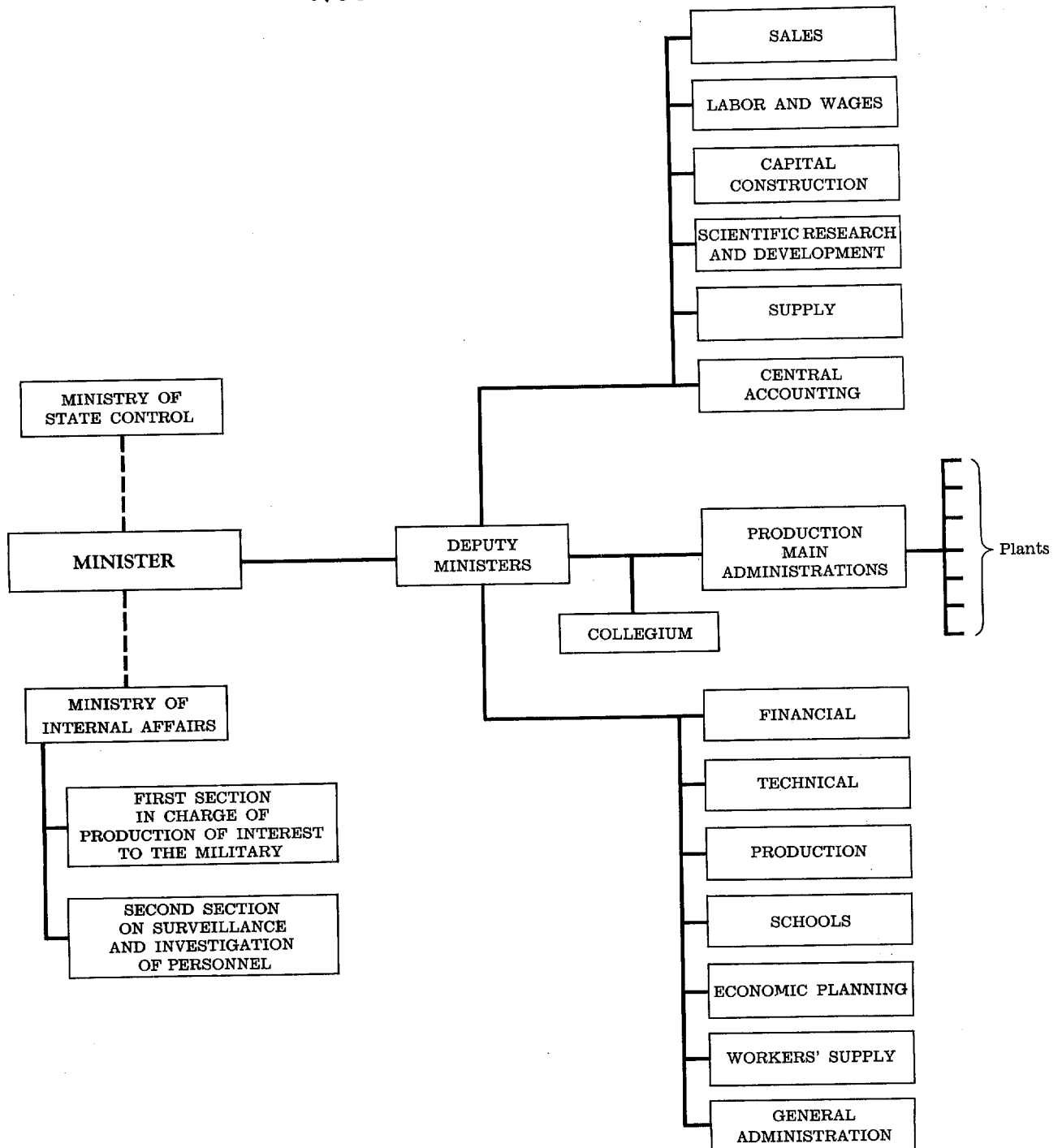
The group for aggregative planning included the departments for coordination or synthetic planning. Their aim was to develop a comprehensive picture of the economy as a whole in terms of such general concepts as national income and product, finance, prices and costs, manpower, and geographical distribution of productive resources. Included in this group were two departments for over-all planning: one concerned with long-range plans and with problems of coordination between the Five Year Plan and the annual plans; the other dealing with annual plans and, through a special branch of national economic proportions, with methods of establishing consistent relationships among industry, agriculture, and transport activities and among consumption, investment, and defense allocations.

^{*} Needless to say, the history of Gosplan is itself complex, precluding all but the most summary treatment here.

^{**} Following p. 10.

Figure 4

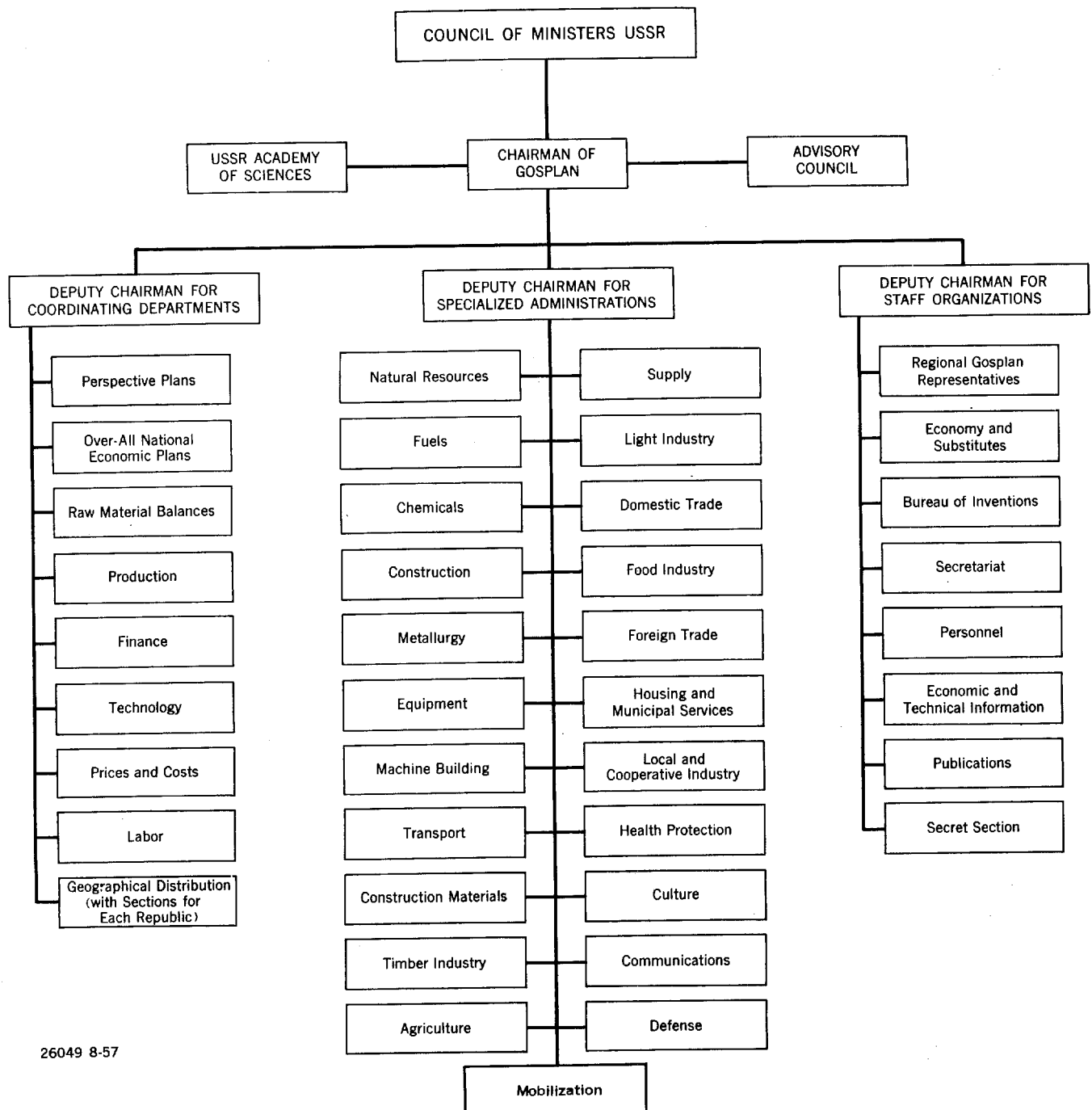
STRUCTURE OF A TYPICAL SOVIET INDUSTRIAL MINISTRY 1955



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Figure 5

USSR STRUCTURE OF THE STATE PLANNING COMMITTEE (GOSPLAN), 1955



The group for aggregative planning also included a financial department which was concerned with the flow of monetary resources, with collating the financial requirements of the economy with sources of financing, and with balancing the flow of money expenditures against the value of current output; a labor department concerned with the distribution of the labor force among the various sectors of production and the economic regions of the country as well as with labor productivity and training of engineers and skilled workers; a production department to coordinate plans of industrial production and inter-industry relationships; a department of regional planning in charge of the geographical distribution of productive resources with branches for every constituent republic of the USSR; and a technology department concerned with the technological aspects of the plan, studying such problems as the introduction of new technological processes and the determination of coefficients of input and output, of production costs, and of standards for utilization of equipment.

C. Planning Group for Technically Specialized Activity.

The group of specialized administrations corresponded to the major specialized subdivisions of Soviet economic activity, such as fuel, metallurgy, machine building, transport, communications, agriculture, and defense industry. Planning in these departments was technically specialized, and account was taken of the plans submitted by individual ministries and main administrations. The division of work in this group, however, was not strictly along ministerial lines. Planning for all branches of machine building, for example, was consolidated in one department. The same was true of the various types of fuel, agricultural production, and transport. Included in this group was a mobilization department also known as the Defense Administration. This administration was charged with translating mobilization plans into industrial, agricultural, and other requirements. It also determined the scope of production for each plant for wartime and made provisions in the capital investment plan for building new capacity for military production.

D. Staff Organizations.

Staff organizations were in charge of general administration, personnel (including regional Gosplan representatives), security, publication, and economic and technical information.

E. The Planning Octopus.

The council of ministers in each of the 16 constituent republics had its own State Planning Committee operating under Gosplan of the USSR, along with lesser planning agencies in all autonomous republics, krays, oblasts, and important cities as well as in each ministry and all agencies and enterprises subordinate to it. Gosplan thus pervaded the entire governmental structure of the USSR.

Gosplan was connected with the lower levels of the planning system through a double system of contacts, and each system operated on the basis of a double chain of communication and administrative authority. In effect, subordinate to the State Planning Committee of the USSR were the State Planning Committees of the constituent republics. Subordinate in turn to these republic Gosplans were the planning committees of the autonomous republics, krais, oblasts, and cities. On each level of the planning system there was also a double chain of communication and administrative authority. In the oblast, for example, the planning committee was under the Executive Committee of the oblast, and at the same time it had a line of communication with the planning committee of the union republic, which in turn was subordinate both to the Council of Ministers of the union republic and to Gosplan of the USSR.

Also, Gosplan of the USSR was connected directly in a second chain of command with each of the economic ministries, the planning departments of which were subordinate on the one hand to the ministry and on the other to Gosplan (see Figure 6*).

F. Supervisory Functions.

Gosplan was also charged with the duties of overseeing the implementation of the plan. This function was carried on in collaboration with the Central Statistical Administration, which until 1948 was part of Gosplan but which subsequently functioned as an independent agency directly responsible to the Council of Ministers. The regional representatives of these agencies could act independently of local planning organs and could require any governmental unit to furnish data and explanations relevant to controlling the fulfillment of the state plans. ^{15/} Gosplan thus acted as an expediting as well as a perspective planning body.

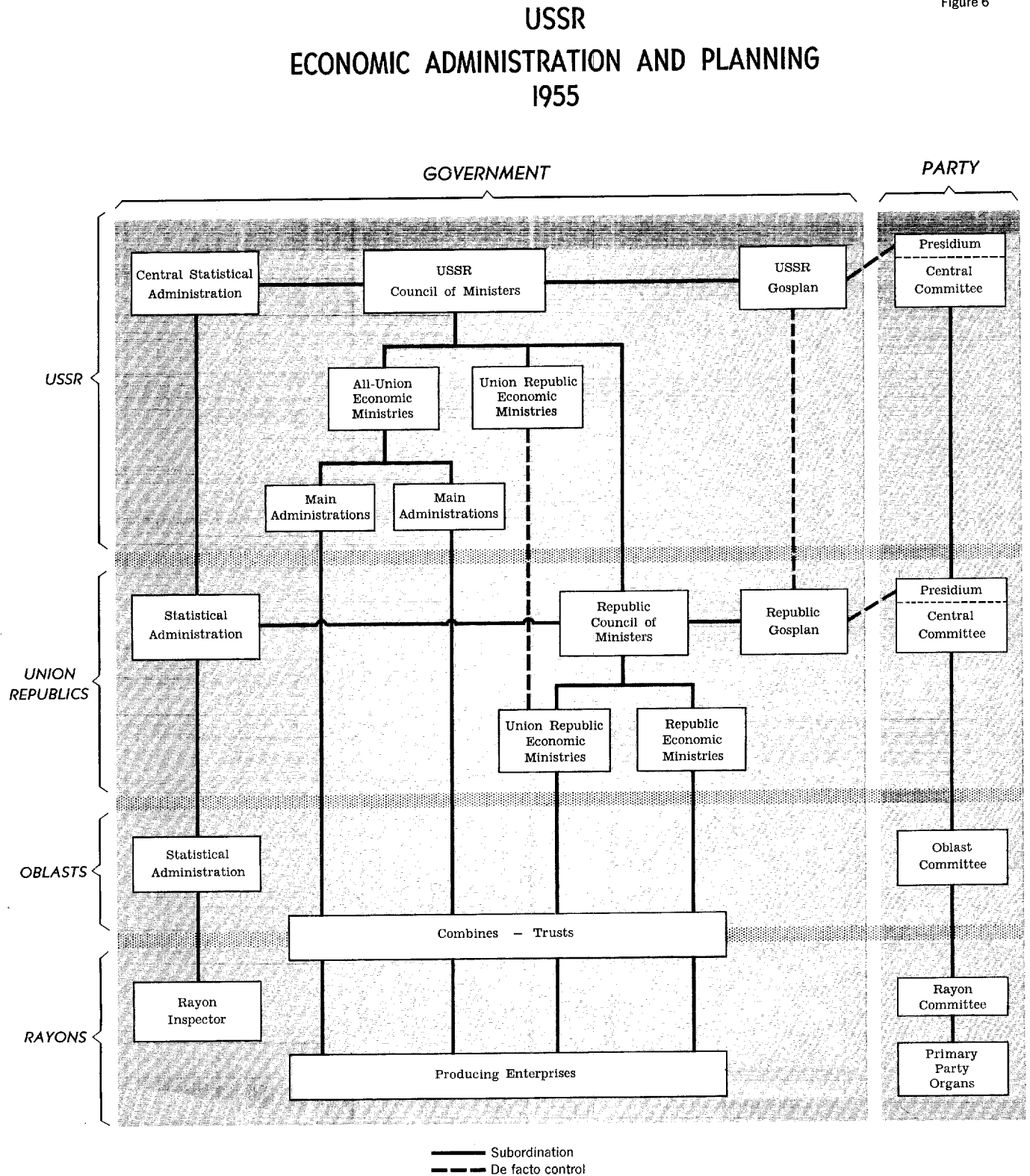
VI. The Economic Plan.

The basic decisions underlying the economic plan were made by the Party Presidium, which with the assistance of its economic staff determined goals for the over-all growth of industry, agriculture, transportation, and trade; the relationship among military outlays, capital investment, and consumer goods; and the geographical location of new industries. It also initiated large construction projects and formulated technological policy.

On the basis of these decisions, Gosplan proceeded with the preparation of a number of general economic balances and of special balances for the various sectors of the economy as well as for the various branches of industry and territorial units. These balances were used for the drafting of the national economic plan, which was then checked with the plans prepared on the lower levels of the economic hierarchy. After approval by the Party Presidium and the Council of Ministers, the annual plan had the force of law. ^{16/}

* Following p. 12.

Figure 6



A. Industry and Construction.

The plan for industry was looked upon as the most important part of the national economic plan. It contained production targets for every branch of industry as well as indexes defining technical and economic conditions of production (quality, technological level, expenditure of raw materials, fuel, labor, and cost). The plan also contained an elaborate construction program providing for the expansion of capital assets and the geographical distribution of new capital investment. 17/

B. System of Allocation.

The allocation of resources to particular uses was effected by means of a centrally controlled supply system known as the funded materials plan. This plan closely resembled the Controlled Materials Plan of the War Production Board of the US during World War II, with the difference, however, that whereas the Controlled Materials Plan was confined to relatively few critical commodities in short supply, in the USSR the list of funded materials comprised a large number of industrial and agricultural goods. The funded materials plan operated on the basis of direct allocation according to a hierarchy of priorities. The highest priority was given to military requirements and state reserves. Next came the needs of heavy industry. The lowest priority was given to industries engaged in the production of consumer goods.

When the program of allocating resources for specific uses was worked out, it had to be implemented through the production plans of every economic ministry and union republic. Soviet pricing policy was one instrument of allocation used in this implementation. Gosplan thus directed the distribution of the most important industrial and agricultural commodities which were essential to the material and technical supply of the economy, not only by determining the ultimate utilization of a particular product but also by specifying the exact quantity and assortment of goods which each ministry and office was to receive.

C. Industrial Production Plan.

The over-all industrial production plan was drawn up in three cross sections: ministerial, commodity, and territorial. The ministerial cross section of the industrial production plan assigned to every industrial ministry the quantity of output which it was supposed to produce during a given period. This assignment enabled the government to judge the effectiveness of each ministry in its fulfillment of plan. The ministerial plan contained a number of output indexes, as follows: gross output computed in constant prices, commodity output which entered exchange computed in current prices, specific products expressed in physical or conventional units, cost of production, and the wage bill.

The commodity cross section of the production program enumerated the quantity of goods of each type which was to be produced during the plan period, regardless of the ministry or economic organization engaged in the production of these goods. This aspect of production planning was made necessary by the fact that despite ministerial specialization the total output of a given commodity was not necessarily produced by a single ministry. Thus steel was being produced not only by the Ministry of Ferrous Metallurgy but also by other ministries. The same was true of electric power, timber, consumer goods, and other commodities.

The territorial cross section of the production program provided data for the economic development of union republics, krais, and oblasts. Targets were laid down for commodity output and for new industrial construction, thus tying in the industrial development of an area with other aspects of the economy. Territorial cross sections were also features of the transportation, manpower, retail trade, and financial plans. 18/

D. Planning at the Plant Level.

The ministerial cross section of the production plan served as the basis for allocating production programs to subordinate trusts and then to individual plants, which were linked in this way to the national economic plan. Production planning in a plant usually took two forms: technical economic planning and operational planning. The first was related to the general management and coordination of technological, economic, and financial aspects of production; the second was concerned with the analysis of the production process into its constituent elements, assigning the tasks involved in each element and timing the flow of the production process. All measures relating to technical and operational planning of an enterprise were consolidated into one document, the Technical-Industrial-Financial Plan (Tekhnicheskii i Promyshlennyy Finansovyy Plan -- Tekhpromfinplan). 19/

VII. Frictions in the Soviet System of Industrial Administration and Planning.

Viewed against the background of accomplishments in the field of industrial production, the Soviet system of centralized planning and control worked with considerable effectiveness. It placed in the hands of the Soviet state a powerful instrument by which to industrialize the country and to establish a solid base in support of Soviet objectives both at home and abroad. The Soviet system, however, was not a frictionless way of organizing production and distribution, and for some time there was evidence of strain in its administrative and planning machinery. Many of the strains and frictions in the operations of Soviet industry have long been evident to Western students of the Soviet economy, but the discussions in the Soviet press accompanying the publication of Khrushchev's "theses" on 20 March 1957 brought the difficulties into the open.

A. Problems of Administration.

Soviet planning, which goes into minute detail, has a formidable problem of administration and coordination. The elaboration of plans, the coordination of sectional programs, the application of planned allocations and priorities, the enforcements of planned input ratios and planned prices, and the insuring of plan fulfillment have fostered the growth of an enormous administrative apparatus and have given rise to a number of basic problems facing the operators of this machinery. One of these problems related to the process of decision making; another concerned the position of the industrial manager; still another involved the problem of interagency relationships. Even more serious than these problems, however, were shortcomings in the supply system.

1. Centralization of Decision Making.

In the evolution of the Soviet system of planning and control, especially under Stalin, the decision-making process became highly centralized. Such centralization has the advantage that single decisions of great scope can be made rapidly, but these may be the very decisions which ought not to be made abruptly, for an error in such a decision is likely to set up a chain reaction that may disturb wide areas of the economy. A highly centralized administrative organization, moreover, is greatly handicapped in making minor decisions promptly. The reluctance of minor bureaucrats to take on responsibility under Stalin meant that thousands of problems piled up on the desks of higher officials, where it was physically impossible to handle them with dispatch. The cumulative effect of this state of affairs constituted a drag on production and a waste of manpower.

2. Position of the Industrial Manager.

The position of the industrial manager in the USSR, especially in the lower echelons of the economic hierarchy, was a difficult one. His responsibilities were staggering. He had to fulfill predetermined production quotas, exercise appropriate initiative, give binding orders, follow strict principles of economic accounting, and get along with a predetermined allocation of factors of production without adequate legal means of acquiring critically needed materials. He was exposed to criticism for underfulfillment of the plan even when the prescribed goals were unrealistic, with the possible consequence of transfer or severe punishment. Also, in spite of the officially stated principle of "one-man authority," the acts and decisions of the economic administrator were frequently challenged in the 1930's and 1940's particularly by the local Party organization, State Control inspectors, and Ministry of Internal Affairs (MVD) agents. In addition, the Soviet industrial manager was circumscribed by a constant flow of instructions and regulations from higher echelons of industrial administration.

Under the circumstances, the recourse of the Soviet industrial manager to practices of questionable legality was quite understandable. There is sufficient evidence, particularly in the Soviet press during the month of April 1957, to indicate that the industrial administrator of the USSR was using various devices for self-protection against unreasonable regulations and unrealistic plan goals. One of these devices was known as "insurance" (strakhovka). Everyone concerned with the performance of an enterprise tended to seek a protective cushion by attempting to have the planned output of the enterprise set low enough to permit some slack. Another practice was concentration on the output of easy items. Because the manager of a Soviet plant measured his success only partly in money terms, there developed a widespread practice to overproduce easy items -- frequently high-cost or high-profit items. 20/ In some instances, managers even resorted to outright falsification of production reports. To the extent that these practices were successful, they tended to disrupt the current plan and the planning process for subsequent periods.

3. Interagency Relationships.

The creation of an organizational structure does not automatically unify the organizations and individuals involved. The rigidity of the specialized ministerial structure of Soviet industrial organization, with its vertical lines of authority and inadequately developed horizontal lines of communication, made lateral cooperation between plants, trusts, and even ministries difficult and was responsible for jurisdictional disputes and bureaucratic barriers. The difficulty was perennial, and the lack of cooperation, especially in the distribution process, was a very frequently discussed topic in the Soviet press.

4. Problems of Supply for Industry.

Prior planning for the allocation of industrial output to its various uses is only one side of the problem of allocation. The other side is the actual flow of supplies from industry to industry, or the allocations which take place at the operational level. Procedures in this field were complicated and tended frequently to disrupt the officially approved blueprints of centralized allocation.

One difficulty was the cumbersome character of the supply organization. There was first Gosplan, which was in general charge of the supply problem. On the next level, many ministries had a main administration of supply with a network of offices, branches, and warehouses throughout the country. Similar networks existed in practically every other main administration of the same ministry. According to Khrushchev, the number of workers engaged in supply and related services of industrial and construction ministries amounted to 850,000 in 1957, and the annual payroll was about 10 billion rubles. 21/ These figures did not cover the industrial cooperatives and local industry establishments.

Another difficulty was the process of distribution itself. The output of any given industrial ministry was distributed to other ministries, which in turn distributed their share among their major subdivisions. These subdivisions reallocated their shares further until the factors of production reached the enterprises which used them. Enterprises had to accept the goods assigned to them, despite their quality, and frequently they had to do without essential goods and services. Plants which did not get needed parts faced the alternative of either producing them themselves, probably at a high cost, or resorting to blat (irregular procedures of bartering or bribing), because of the necessity and pressure to fulfill the production plan.

In the functioning of the Soviet supply system a special group of operators arose whose tasks were to expedite the delivery of supplies needed by industrial establishments. These operators, in their function as "pushers" (tolkachi), had no official status. Their success, of course, depended upon the extent to which they were able to circumvent official regulations and bureaucratic red tape. Although the operations of the tolkachi formally violated the planning process, at the same time they in fact facilitated the day-to-day operation of centralized allocation. 22/

B. Problems of Planning.

The official Soviet picture of an economy completely directed by a flawless master plan differs considerably from the picture disclosed in Khrushchev's "theses" of 30 March 1957 and the various comments on these proposals which appeared in the Soviet press during the month of April 1957. Some of the difficulties arose from bad planning decisions, but others were a consequence of the system itself.

1. Economic Disproportions.

In spite of the frequent claim of a single plan integrating the entire economy, Soviet economic development has been unbalanced. Disproportionate development from industry to industry has led to high rates of output in some fields and to the neglect of other often interdependent fields. Some imbalances were deliberate consequences of the Soviet system of priorities (especially the cumulative effects of investment decisions), but others were due to the almost universal tendency to regard each planned target in isolation, to be "overfulfilled," if possible, often without regard for the effect of such overfulfillment on other branches of industry. One result of this was the tendency for output growth to be restrained by lags in complementary industries. 23/

2. Problems of Scheduling.

In order to meet the monthly targets of the plan, there was a fairly widespread practice of working the plant at a furious pace during the last 10 days of each month. The Russians called this practice "shock tactics" (shturmovshchina). In a lush economy, lubricated by

3 to 6 months' inventories of raw materials and semifinished goods, this practice might have little effect except on morale and efficiency at the plant concerned. The Soviet economy, however, was plagued by innumerable bottlenecks. Consequently, poor production scheduling in individual plants has had a serious impact on over-all efficiency by forcing dependent plants into partial inactivity.

3. Problems of Allocation.

An important shortcoming in Soviet planning has been the allocation system, which lacked a sufficiently sensitive mechanism for registering changes in the relative scarcity of the factors of production. This difficulty was never officially admitted by Soviet leaders, but it must have exercised an adverse influence on economic planning. As the production of any commodity uses up scarce factors, a change in the product mix of any production program complicates analysis of the relative scarcity of factors of production.

In a free economy the pricing system reflects the relative scarcity of factors of production. A change in relative scarcity is accompanied by a change of factor prices, and changing factor prices lead to changed allocations, even though the aims of production may remain the same. Compared with this market system, pricing plays a subordinate role in the USSR. Allocations are determined directly by reference to priorities and technical coefficients. The planning mechanism is too cumbersome, however, to register rapid changes in the product mix and to reflect changes in the cost structures of particular products. The system is unwieldy and ill-suited to rapidly shifting the pattern of use of its resources to the most efficient combination.

VIII. Search for New Forms of Industrial Organization in the Post-Stalin Period.

The passing of Stalin from the Soviet scene presaged far-reaching changes in the administrative structure of the Soviet state, particularly the administration of Soviet industry. A government reorganization immediately after Stalin's death in March 1953 consolidated 10 ministries in charge of machine building, together with the Ministry of Electric Power Stations, into 3 ministries, and 4 industrial ministries engaged in the output of consumer goods were merged into 1 ministry. This general ministerial consolidation was an emergency measure connected with the transfer of power to a new group of leaders. When the leaders considered the emergency over, they reverted to the old administrative pattern, so that by early 1954 the number of industrial ministries was about equal to what it had been at the death of Stalin.

A. Change in Status of Industrial Ministries.

Early in 1954 a new trend in the organization of Soviet industrial activity began. A number of All-Union ministries in the heavy industry group, such as metallurgy, coal, and petroleum, became union-republic ministries. Hitherto, the fact that these industries were

important to the state as a whole, rather than the fact of their predominant role in the economic development of the constituent republics, had determined their status as All-Union rather than union-republic ministries. This new transfer of certain All-Union ministries to union-republic status was officially ascribed to the need to "rationalize" the administration of industry and by the desire to assign to the union republics greater responsibility in managing industrial production.

This trend continued, and by the end of 1956 about 55 percent of Soviet industrial production was in the union-republic category. ^{24/} This percentage, however, differed widely from republic to republic. Thus in the RSFSR industrial production in the union-republic category amounted to 41 percent, in the Ukrainian SSR 70 percent, and in Kazakhstan 67 percent. ^{25/}

This change in the status of industrial ministries apparently failed to achieve the expected amount of improvement of industrial administration. Administrative problems as well as the disproportions of the Sixth Five Year Plan came up for special consideration at the Plenum of the Central Committee of the Communist Party on 20 to 24 December 1956.

B. Reorganization of Gosplan.

Long before the above-mentioned December Plenum, significant changes had taken place in the economic general staff of the USSR -- the State Planning Committee (Gosplan). In 1955, Gosplan was split into four agencies. The coordinating departments of labor and technology (see Figure 5*) were set up as independent agencies. One was named the State Committee on Labor and Wages, the other the State Committee on New Technology. The other planning functions of Gosplan were divided between two commissions: one, named the State Planning Committee (Gosplan), was given the responsibility for perspective or long-range planning; the other, named the State Economic Committee (Gosudarstvennaya Ekonomicheskaya Komissiya -- Gosekonomkomissiya), was placed in charge of current planning. The role of the economic general staff of the USSR had passed predominantly to Gosekonomkomissiya. Its chairman, M. Saburov, who for many years had headed the consolidated Gosplan, was a member of the Party Presidium and First Deputy Chairman of the Council of Ministers, although the chairman of the new State Planning Committee, N. Baybakov, had served merely as Minister of the Petroleum Industry and was not a member of the top policy-making bodies of the USSR. As far as prerogatives were concerned, Gosekonomkomissiya was in charge of the annual plan, which in Soviet planning practice was the basic operational plan with the force of law. The Five Year Plan, in contrast, provided only an approximate guide for future output goals as a general basis for the annual plans.

C. The December 1956 Plenum.

When the Plenum of the Central Committee of the Communist Party met in late December 1956 to review the economic situation of the first

* Following p. 10, above.

year of the Sixth Five Year Plan, it was confronted by the fact that the measures taken in the immediately preceding years to improve industrial administration and planning had not proved adequate. Certain basic industries -- metallurgy, coal, cement, and timber -- lagged behind the plan, largely because of the cumulative effect of niggardly investment allocations by the planners. The heads of at least two of these ministries (metallurgy and coal) insisted that greater output depended upon additional investment for which the planners had failed to provide the necessary financial and material resources. ^{26/} This looked like an open rift between the administrative and planning areas of the Soviet economy.

The resolution of the Central Committee blamed both the ministries and Gosekonomkomissiya for the failure, but it left no doubt that the ministers had scored a point. The resolution ordered a "revision of planned targets for those branches of industry which were not allotted sufficient material resources." ^{27/} This involved a review of the Sixth Five Year Plan as well as of such plans as already existed for 1957, which the Central Committee ordered Gosekonomkomissiya to undertake.

The Plenum also shifted leading personnel of Gosekonomkomissiya and increased its prerogatives in the domain of planning and coordination. The new chairman of Gosekonomkomissiya, M. Pervukhin, was a member of the Party Presidium and First Deputy Chairman of the Council of Ministers of the USSR.

Of Pervukhin's 6 deputies, 5 were Deputy Chairmen of the Council of Ministers (Kosygin, Malyshev, Kucherenko, Khrunichev, and Matskevich) and 1, Benediktov, was Minister of State Farms. Gosekonomkomissiya was given responsibility for the "operational solution of current problems connected with the fulfillment of the State Plan." ^{28/} Thus Gosekonomkomissiya was granted powers of intervention to break bottlenecks and to revise targets whenever such revision was made necessary by new developments.

In a sense the December Plenum was a critical incident in the relations between the administrative and planning arms of the Soviet economy. Some of the legitimate complaints of the administrators were recognized, and Saburov, in the center of the controversy with the ministers, was removed from the chairmanship of Gosekonomkomissiya. At the same time, Gosekonomkomissiya itself acquired additional prestige through the appointment of high-ranking officials as its leading personnel and through the grant of additional powers. But the tasks which the Central Committee imposed upon the planners and the criticisms leveled upon the administrators foreshadowed more drastic things to come.

The planners were ordered to make the "control figures" of the Sixth Five Year Plan "more precise" -- with an implication of possible downward revision -- but, at the same time, the principal objectives of

the Sixth Five Year Plan, as outlined at the Twentieth Party Congress, were to remain unchanged. 29/ In a second assignment, Gosekonomkomissiya was to make sure that the production programs of industrial ministries were supported by requisite capital investment. Yet the total amount of capital investment originally provided for in the Plan was to be reduced. Out of this reduced amount of capital investment, adequate provisions were to be made for industrial stockpiles, and additional resources were to be found to expand the housing program. 30/

The administrators were sharply criticized for attempting to set their production program too low, for concentrating on the production of items whose output required the least effort, for hoarding supplies and equipment, and for failing to utilize "internal reserves" of subordinate enterprises. 31/ The Party leadership continued to stress verbally the desirability of increasing the economic prerogatives of the union republics but failed to take action to accomplish this aim.

D. The February 1957 Plenum.

An annual plan for 1957 was presented to the Sixth Session of the Supreme Soviet early in February 1957 by the Chairman of Gosekonomkomissiya, Pervukhin. The plan called for a relatively modest increase in gross industrial production, at a rate of growth substantially below the average annual rate required to meet the 1960 goals provided for in the original directives of the Sixth Five Year Plan.

The Supreme Soviet adjourned on 12 February 1957. On the following day the Central Committee met in plenum to hear a report by Khrushchev, and 1 day later (14 February) a resolution was adopted which inaugurated far-reaching changes in the administration of Soviet industry and in the organization of planning. The resolution made it clear that the man to be identified with the changes was the First Secretary of the Central Committee of the Communist Party, Khrushchev, who by this time had acquired the backing of the Central Committee.

The so-called "popular discussion" preceding the reorganization of industrial administration contained much criticism of the ministerial system that filled in many details of its functioning. An appreciation of this functioning, such as outlined in the foregoing discussion, facilitates analysis of Soviet developments involving economic policy -- for example, the reorganization itself, the purge of the "anti-Party" group in June 1957, the decision to draft a long-term economic plan for the 1959-65 period, and the modest plans for 1957 and 1958.

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